

2019 ACA PENSION TRENDS SURVEY

Final Report – Pension reform momentum must continue with actions on AE contributions and simplification measures



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE

ACA survey report says momentum of pension reform needs to be built upon with plans set out to increase automatic enrolment minimum contributions alongside tax and benefit simplification

16 January 2020: In the final report outlining the results of the *ACA's 2019 Pension trends survey*¹, the Association of Consulting Actuaries (ACA) has called on the Government to set out a timetable for when it will implement its planned automatic enrolment (AE) reforms over this Parliament, including a timetable for increases in AE contribution levels. The report also calls on the Government to begin a 'thoughtful and collaborative review' of the pension tax regime – not just a knee-jerk reform for a few – and the development of a comprehensive strategy to allow defined benefits to be simplified so members can better understand their true value and address the savings 'gap'.

Launching the report, **ACA Chair, Jenny Condron**, commented:

"Our survey was undertaken in the summer of 2019 and the findings show there is an appetite from employers for a gradual, but essential, increase in the default level of savings into defined contribution schemes by millions of workers. Without commitment from Government to ensure that sums saved into AE are increased, we see little prospect that as a society, we will be able to address the fears of a growing gulf in retirement incomes from one generation to the next. The Government needs to 'maintain the momentum' on AE (as it said it would in its 2017 AE Review²) by implementing the recommendations made and building upon them in this Parliament."

Key findings highlighted in the Final Report are:

The ACA survey, which received responses from 308 employers of all sizes, found:

▪ AE and Pension contributions

- Should the Government ultimately decide to increase minimum AE contributions from, say April 2021, the median acceptable level supported by employers was a minimum total AE contribution of **10%** of total earnings with a minimum employee contribution of **5%**, subject to a cap. Larger firms supported total contributions of **at least 12%** of earnings. **82%** of employers supported payment of AE contributions from the first £ of earnings, and **85%** supported reducing the minimum eligibility age to 18.
- The current median cessation rate³ from AE schemes (including initial opt-outs) is **6-10%** of eligible employees (down from 11-15% last year) across all employers, but with considerably higher cessation rates at employers with fewer than 50 employees.
- **83%** of employers said the April 2018 increase in minimum AE contributions did not impact adversely on scheme participation and **81%** said the same following the April 2019 increase.

¹ The *ACA 2019 Pension trends survey* was conducted in the summer of 2019 and attracted 308 responses from employers of all sizes, running over 510 different schemes.

² [2017 Automatic Enrolment Review: Maintaining the Momentum](#), published by DWP, December 2017

³ Cessations are those employees who decide to leave their AE scheme after the initial one month 'opt-out' period.

- Median employer contributions into defined contribution (DC) pension schemes across our sample are **4 – 7%** of earnings – much the same as a year ago, but with contributions into AE schemes doubling. Employee contributions range between **4 – 5%** of earnings, slightly up on a year ago – with again the biggest change being contributions into AE schemes.
- Median combined employer and employee contributions into defined benefit (DB) arrangements are **22-26%** of earnings (excluding deficit repair contributions), slightly down on 2018 levels, but indicative of the ‘real cost’ required to provide for more comfortable retirement income.

Other findings:

▪ Pension tax reform

- **75%** said the current pension tax structure was too complicated and needs simplification.
- **67%** say reform should target more help on lower income groups, even if some other people are worse off as a result.
- **44%** (up from 30% in 2018) of responding employers said the impact of current restrictions in relief have caused senior/higher income employees to leave their firms’ pension schemes, disconnecting more and more senior decision-makers from personal interest in this key element of the employee package.
- **21%** report that skilled staff are retiring earlier or working fewer hours, supporting the evidence seen from the NHS schemes that the pension tax regime is distorting behaviour. **69%** said the Tapered Annual Allowance should be abolished.

▪ Pensions dashboards and DB simplification

- **70%** are opposed to dashboards being launched without the inclusion of State pension benefits.
- **55%** say DB scheme consolidation is more likely if legal changes are made to allow benefits to be simplified on the way into a consolidation vehicle.
- **64%** of employers running DB schemes say it will take more than 2 years to fully equalise pensions for the effect of unequal GMPs in their schemes. Administrative complexity tops employers’ concerns.

Jenny Condron, commented:

“Pension taxation reform involving greater simplification, to coin a phrase, cannot be for the few not the many. The survey findings strongly support a thoughtful and collaborative review of the regime. Even if some knee-jerk action for NHS clinicians is made, as promised, there is clear evidence, for example, that the tapered annual allowance is all but inoperable across the public and private sectors. And, of course, whilst the re-tabled *Pension Schemes Bill* will address certain DB scheme reforms that are needed, our survey findings stress that some important simplifications⁴, facilitated by GMP equalisation and conversion, remains a priority if millions of members are to better understand the very valuable benefits of such schemes and enable employees to address any savings gap to their desired level of retirement income. The new Government needs to build on the momentum for reform in its pension and savings strategy.”

The final report on the *2019 Pension trends survey* is available online [here](#)

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⁴ [Simplifying pension benefits – is it time for the Pensions Pound?](#) Published by ACA and Royal London, November 2018.

About the Association of Consulting Actuaries (ACA)

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